

*Excerpt from*

# **Charting A Way Forward**

A Path Towards Fiscal Stability For  
the State of Michigan

November 2009

Legislative Commission on Government Efficiency

## LOCAL GOVERNMENT AND REVENUE SHARING

### *Key Findings and Recommendations:*

The State Constitution dedicates 15% of the first 4¢ of sales tax to townships, cities and villages on a per capita basis. By statute, 21.3% of the gross collections from the first 4¢ of the sales tax are dedicated to the revenue sharing program. Although constitutional revenue sharing increased from fiscal year 2001 to fiscal year 2008 by approximately \$45 million, it is expected to decline in fiscal years 2009 and 2010 due to the state economic situation. The rise in inflation, the reduction in property values and resulting decline in property tax revenue, and the decline in credit and stock markets have resulted in raising the cost of debt while lowering the value of investments, particularly in the areas of pension funds, further impacting local government revenue. One of the significant means of balancing the state budget has been to reduce statutory revenue sharing. Over the last five fiscal years, it has decreased by approximately \$250 million.

Accordingly, the Commission recommends that the State implement the following recommendations, and that they be jointly implemented to maximize their impact:

- By a constitutional amendment, combine and restructure constitutional and statutory revenue sharing. The total dollar amount of revenue sharing will be guaranteed in the Constitution, but the distribution formulas, determined by the legislature, will be for specific, base-level services rendered by local governmental units rather than providing unrestricted funds. This will insure that the money will go to local governmental units that provide services, such as police, fire and road upkeep and improvement. In addition, it will provide local units with more certainty as to the funding they will receive from the State.
- Increase the authority of local units to tax their citizens for desired services above and beyond the base-level services that all local units provide
- Establish an Intergovernmental Advisory Office (IAO) within the State Department of Treasury to eliminate barriers and increase the likelihood of successful local government efforts to share services, collaborate, consolidate, and increase efficiency
- Provide incentives for local governments to be efficient with the funds provided by the State by providing incentives to local governments to enter into agreements to cooperate and collaborate in the provision of services

The potential for savings in local government expenditures is significant. For every 3% reduction in local government expenditures, the State saves \$350 million.

The Commission recommends that the State take the following actions to ensure that revenue sharing is used to provide essential services to the citizens of local government units, while also providing more certainty to those units as to the funding they will receive from the State.

### **Revenue Sharing to Provide Essential Services**

#### *Recommendation: Restructure the distribution formula for revenue sharing*

The Commission recommends a constitutional amendment that would alter the distribution formula for revenue sharing by eliminating the per capita distribution and provide that the payments should follow the provision of certain designated base-level services such as police, fire, road upkeep and improvement, sewer, tax administration, elections, court functions, libraries, and mental health services.

This restructuring should be accompanied by a guaranteed level of funding to local governmental units to provide them with more certainty as to the funding they will receive from the State.

Counties should be included in constitutional revenue sharing distributions for their performance of functions on behalf of local units of government within their borders.

The restructured distribution formula should also designate a portion of the revenue sharing funds to provide incentives and research grants to local units of government to explore new means of collaboration and cooperation. These funds would be overseen by the IAO.

A summit of stakeholders should recommend those services to be supported through constitutionally guaranteed revenue sharing, among other responsibilities described in subsequent sections of this report. The statute creating the IAO can also provide for the state summit and the criteria used to determine participation in the summit, such as population size and both urban and rural units of government, to ensure that a variety of perspectives are represented. The summit of stakeholders should represent urban and rural counties, cities, townships, and villages. The division between urban and rural would be determined by statute.

**Recommendation:** *Increase the authority of local units to tax their citizens for desired services above and beyond the base-level services that all local units provide*

Local units wishing to provide additional services beyond the level funded by the State should have the authority to levy taxes to fund those services. Options for expansion of this authority include:

- Expanding the entities allowed to levy an income tax to include counties, villages and townships
- Increasing property tax millage limits
- Expanding local sales tax opportunities by constitutional amendment or by allowing greater use of selective sales taxes
- Linking specific increases in taxing authority to specific changes in revenue sharing payments
- Adopting legislation allowing the creation of more regional tax authorities to administer designated sales, income or property taxes
- Expanding opportunities for tax base sharing
- Developing constitutional amendments to address the interaction between the Headlee Amendment provisions concerning millage rollbacks and Proposal A changes, such as the development of taxable value caps

**Recommendation:** *Establish an Intergovernmental Advisory Office within the Department of Treasury to eliminate barriers and increase the likelihood of successful local government efforts to share services, collaborate, consolidate, and increase efficiency*

The State should create an entity within the state Department of Treasury, patterned after other boards or commissions such as the Michigan Gaming Control Board, the Liquor Control Commission or the Michigan State Housing Development Authority. The Intergovernmental Advisory Office (IAO) would have the following responsibilities.

- Establish common minimum operational standards, including accounting standards, for all local governmental units
- Evaluate and recommend changes to current statutes to enable and/or incent collaboration, cooperation and consolidation. The Commission received consistent testimony that these statutes were impediments or barriers to collaboration and cooperation. These statutes include

- Urban Cooperation Act of 1967 (Public Act 7 of 1967)
- Metropolitan Cooperation Act (Public Act 293 of 1937)
- Compulsory Binding Arbitration Act (Public Act 312 of 1969)
- Public Act 8 of 1967
- Intergovernmental Act 292
- Home Rule statute
- Oversee the distribution of a portion of the revenue sharing funds designated for exploration of innovative approaches to collaboration and cooperation.
- The funding for the IAO would come from the constitutionally defined funds; the summit of key stakeholders referenced above may be the appropriate body to determine the percentage of funds available to the IAO to distribute to local units of government.

### Incentives for Sharing Services, Gaining Local Efficiencies and Cost Savings

There are many examples of intergovernmental collaboration that can be found across Michigan. The Commission held public hearings to get input and feedback from local governmental units, and heard examples of collaboration from cities, townships, counties and regions. However, the Commission also heard from local governmental units that barriers and disincentives still exist that, if addressed, could further promote cooperation and collaboration.

The State should promote integration of government services that exhibit economies of scale. The IAO should play a significant role in this promotion. Potential services include:

- 911 emergency services
- Court services
- Tax collection
- Property assessing/equalization
- Other administrative functions
- Significant capital expenditures

The State should consider a variety of means to promote collaboration and cooperation.

- Create an inventory of best practices and examples of successful collaborative efforts previously used
- Award grants to support innovative, but yet unproven pilot programs (similar programs can be found in New York and New Jersey)
- Create a loan fund from which collaborating local governments can borrow for the acquisition, purchase or construction of capital intensive items
- Offer grants to local governments that develop joint ventures for delivering government services
- Create online "want ads" for local governments seeking partners for collaboration

A summit of state and local leaders should identify minimum operational standards and inventory best practices and successful collaborative efforts that could be replicated. The summit should also review various statutes for potential changes in order to increase the potential for collaborative efforts. The summit should be facilitated by the IAO.

Please note that Commissioners Bargamian and Leonard have further comments that can be found in the Commissioner Statements beginning on page 53 of this report.